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Commentary on Climate Change ~ Patrick Brown

The Great Chinese Carbon Credit Scam

One of the strategies that was proposed by the previous Canadian government (so Canada could appear to meet its Kyoto greenhouse gas reduction targets) was the purchase of GHG credits which are generated by 'green' projects in developing countries. We've previously suggested that this scheme was vulnerable to misuse (see 'The Carbon Credit Myth' in *Island Tides'* June 15, 2006 edition). A fascinating example has just come to light.

A Chinese Approach

China is now second only to the United States in GHG emissions, but it has no Kyoto set targets. It is also a 'developing' country which can host 'Clean Development Mechanism' (CDM) projects (see box). Recently, the Wall Street Journal reported on the approach taken by one of these projects to selling GHG credits—and making a profit on them. Here's how it goes.

The Shanghai 3F New Materials Co manufactures the refrigerant HFC-22, producing the greenhouse gas HFC-23 as a by-product which would normally be released into the atmosphere. HFC-23 is said to be thousands of times more potent as a greenhouse gas than CO_2, and thus not releasing it can generate enormous tradable (under CDM) CO_2 credits.

(According to Radio Nederland, HFC-23 is one of the gases targeted by the Montreal Convention, the purpose of which was to eliminate hydrofluorocarbons which caused holes on the earth's ozone layer.)

So two Chinese companies in Jiangsu province are set up to process HFC-23. These two companies intend to destroy (to quote the *Wall Street Journal*) 'about 125 million so-called CO_2-equivalent tonnes' of the gas. For this service they will be paid about $8 an 'equivalent tonne,' by a consortium that includes the World Bank, Deutsche Bank AG, and Mitsui & Co, for a

Clean Development Mechanism (CDM) Projects

The CDM is described in Article 12 of the Kyoto protocol, and is administered by the Conference of the Parties of the UN Framework Convention on Climate Change.

In theory, these 'green' projects typically carry out economic development using technology that would either produce less greenhouse gases than conventional technologies, or would actually absorb greenhouse gases (such as growing young tropical trees). The payment made for the GHG credits would go to finance the costs of making these projects 'green'; without this payment, the project would either add to worldwide GHG emissions or at least would not reduce them.

GHG credits are expressed in tonnes of CO_2 not released into the atmosphere. The idea of trading in carbon credits is that since GHG's are distributed evenly over the globe, it doesn't matter where you reduce them as long as you reduce them.

All this is to be managed through something called the Clean Development Mechanism (CDM), which ensures that the projects are actually carried out, ensures that the required greenhouse gases are actually reduced or absorbed, ensures that the money goes to the right place, issues certificates and documentation, and provides a veneer of respectability to the whole thing.

Potential for Fraud

Clearly, though, the potential for fraud is considerable. In Europe, a number of nations have already set up a 'cap and trade' system for major corporations, in which GHG credits have become a tradable, if volatile, commodity.

Prices varied wildly in the early days. The market assumed that all credits, once certified by the appropriate nations, were interchangeable, even though these same nations were responsible for also setting the 'caps' (or GHG emission limits) which require some industrial GHG emitters to purchase credits and gave others large quantities to sell. The World Bank, encouraging the market, estimates that it was worth $21.5 billion in the first three quarters of 2006, about double the figure for all of 2005.

The principle of 'cap and trade' is that a corporation that is exceeding its 'cap' has the choice of either reducing its production or installing new technology (to reduce its emissions), or of purchasing GHG credits, presumably at lower cost, from others (to reduce other people's emissions). This process has been, validly I believe, compared to the sale of Papal Indulgences. And some of these Indulgences come cheaper than others.

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total of about $1 billion.

Profits for All

But the actual cost of destroying the HFC-23 is only about $1 an 'equivalent tonne', so there are handsome profits to be made.

The Chinese government, for its part, has mandated that only 100% Chinese-owned companies can sell carbon credits. And the proceeds of those sales are taxed at 65%, earmarked for a fund that is used to promote cleaner forms of energy.

So everybody wins, right? European companies are happy to purchase World Bank-certified carbon Indulgences for $9 a tonne (or maybe a little more); the Chinese companies make a nice profit (more than they are making from the underlying refrigerant); the Chinese government makes a nice profit; the World Bank has product to make its carbon credit market run; and the financial traders make nice brokerage fees with a new powerful 'product' to trade.

Of all the CDM-eligible countries, China now produces 60% of the carbon credits, with India next at 15%. Europe and the UK, with their cap-and-trade systems, purchase 85% of these credits. But what is this actually doing for climate change? ✐

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